



THE **RAILWAY SITUATION**

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Editor, Railway Age

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PRESIDENT J. J. EGIN: We are highly privileged today in having with us a man of national reputation, a recognized authority in railroad matters. I know he has the happy faculty of getting to the heart of anything he undertakes. It is a great pleasure for me to introduce to you Mr. Samuel O. Dunn of the *Railway Age*. (Prolonged applause.)

MR. DUNN: Mr. President, members of the Railway Accounting Officers Association, ladies and gentlemen, it is a very great pleasure to be with you here this morning and, I need hardly say, deeply gratifying to receive this manifestation of friendship.

I feel a little embarrassment as I stand before all of you gentlemen, because I realize that most of the work which I have done in a good many years has consisted in purloining and attempting to distribute among the public the information regarding railway matters which you have produced.

I said to one of my associates one day not long ago, commenting upon some man whom we had met, who was a very smart man in most respects but had his peculiarities—I said, “It seems to me that everybody today is a bit of a nut about something. You have been associated with me a long time. What am I a nut about? I must be about something.”

He said, “Well, I always feel that you show that you are a good deal of a nut whenever you run across what you regard as a new statistic.”

I have been borrowing statistics from you gentlemen and trying to so convert them as to make them consumable by the American public, for a good many years, and I must say that the more I have made use of the results of the work of the accounting officers of our railways, the more my respect and admiration for them has grown.

I realize, of course, that the present accounting and statistical system is based largely upon the work of the Interstate Commerce Commission, but those of us who have followed its developments know that a large part of its principles have come from the accounting officers of the railways, and I doubt very much if there is any industry in the world whose accounts and books are today kept in such a way as to show the actual facts about that business any better or even as well as the accounts and books of the railways of the United States.

Now, of course, your President and Secretary did not expect me to come here and talk about accounting because, to tell the truth, I do not know much about it. I just take what you gentle-

men give me as being correct and I have never had any reason for regretting it.

I was asked to come, to talk about the general railway situation. The invitation was received by me in the form of a telegram which was handed to me within thirty minutes after I got off the ship in New York, after having been out of this country for two months.

I have always had a great deal of admiration for the officers of our railways. I never come back from traveling in Europe without having more admiration for the managements of our railways.

Of course, the conditions over there now are largely the aftermath of the war. But I think, regardless of that, that it was true before the war and it is true now that nothing would help more to solve our railroad problem than for the railroads to buy every voter in the United States a ticket to Europe and require him to ride on the railways over there for about two months. (Laughter.)

"When the mariner has been tossed for many days on an unknown sea," said Webster in his reply to Hayne, "he naturally avails himself of the first pause in the storm, the earliest glance at the sun, to take his latitude and ascertain how far the elements have driven him from his true course."

The railways of the United States have been tossed literally for years upon an unknown sea. This country entered the great war over five years ago. The railways have been in a storm or a series of storms ever since. In 1917 they went through the great struggle to so handle the country's commerce as to avoid government control. Next they passed through government control. In 1920, with facilities that had been returned to them deteriorated, and in spite of a series of outlaw switchmen's strikes, they had to handle the largest traffic ever known. Finally, in 1921, with operating expenses greatly inflated and a business which within a few months had declined to less than five years before, they had to ride the worst financial storm through which they have passed in half a century.

Apparently we have now finally reached or are approaching a pause in this storm or series of storms. It seems time for railroad officers, like the mariner in Webster's metaphor, to glance at the sun, take their latitude and ascertain whence the elements have carried them.

Some may question if the storm has really paused. The coal strike continues and is producing marked effects, of course, upon traffic and upon earnings. Because the Railroad Labor Board recently has awarded a reduction of the wages of certain classes of employees, there is talk of railway strikes.

It is difficult to listen to this talk of strikes without feeling how unreasonable it is. Even after the wages which have been awarded by the Labor Board have gone into effect on July 1, the purchasing power of the wages of the employees involved, measured in the cost of living, will be larger than it ever has been in the past, except

during this recent period when the cost of living has gone down faster than wages. The Labor Board has very specifically stated in both of its recent decisions reducing wages that after these wages have gone into effect the compensation of the employees involved will be larger than is being received by men doing similar work in other industries.

Under the conditions, strikes by the employees would be so unreasonable, their prospects of success so remote, that it is hard to believe that the talk will end in anything but talk.

Besides these labor difficulties, the Interstate Commerce Commission has ordered an important general reduction of rates.

But sooner or later the coal strike will end. The heavy movement of coal will then cause trouble, but it will, at least, increase railroad earnings. It seems somewhat improbable, as I have indicated, that any strikes will occur soon on the railroads which will have serious effects.

It appears probable that the reduction of rates will be largely or wholly offset in a short time by reductions of wages and other expenses, and by increases of traffic. The trend of general business is plainly upward. Traffic in general, excepting coal, recently has approached normal and I think may even be said to have become normal.

I was somewhat surprised in checking over the figures yesterday to find that the number of carloads of freight, excepting coal, loaded in the last five weeks had been larger than the number of cars loaded with the same kind of freight in any year for which there are reports, and the largest number of cars of freight loaded this year, even in spite of the coal strike, was in the last week for which we have reports.

The accounting officers of the railways are much better able than I am to estimate what will be the effect after July 1, of the various changes in rates, wages and traffic which are occurring or will occur.

It seems to me, however, that on the whole we may reasonably anticipate that throughout the present year the financial results of railway operations will be somewhat better than they were last year and, perhaps, considerably better.

There does seem ground for hoping that we have entered or soon will enter a period when shippers will desist for a while from constantly attacking rates, when wages and working conditions will cease for a while to be the subjects of acute and dangerous controversy and when, if the railways do not enjoy a period of real calm, they will at least not constantly be tossed about by a tempest which threatens to engulf them. Looking farther ahead, if we could reasonably hope that railway officers would be accorded some measure of that freedom to conduct their business which man is accorded in other lines of business, we might anticipate a period of real prosperity for the railroad industry.

It would, however, be as foolish to be too optimistic about the

future as to be too pessimistic. It seems quite evident that on the whole conditions in the railway field are better than they have been any time in four years, that they are improving and that they will continue to improve. It seems clear that we shall not again in some years pass through another period when deficits will be incurred month after month and when a large part of the railway will be threatened with bankruptcy.

It seems clear, in fact, that the general tendency of the net return will be to increase, and that the stronger companies will be able to carry out larger programs of improvement than for some years.

But this does not mean that the railroad problem has been satisfactorily solved, or even that it is going to be thus solved.

In considering the question whether it is being solved or is going to be solved, we must not forget experience or fail to give due weight to adverse influences. The struggle over the railroad question has been going on for years. There have been times in the past when the influences favorable to a sound settlement appeared to be prevailing. But counter influences later proved to be more powerful, and these counter influences are still in operation. While recently there have been some favorable developments, there have also been some which have been unfavorable. All these things must be considered if we are to arrive at a correct conclusion as to where our ship has been driven and what must be done to get it back into its true course.

Probably it is not far from the truth to say that the future of the railways can and will be mainly determined by their own officers. Summarizing the matter roughly, there are two things that their officers must do if they are to do their part in bringing about a solution of the problem which will be fair and beneficial to all concerned.

First, they must manage the properties honestly and efficiently and give the public good service at the lowest rates compatible with the rendering of good service. Secondly, they must build up an intelligent, healthy and friendly sentiment on the part of the railway employees and the public towards the railways, or, at least, a more friendly sentiment than now generally prevails.

The opinion rendered by the Interstate Commerce Commission in the recent reduced rates case is a remarkable and historic document in some respects.

In the first place, it is a high tribute to the honesty and efficiency with which the railways have been and are being managed. The Commission is an arbiter between those who own and manage the railways, on the one side, and those who use and pay for their service, on the other side. Now, the railroads for years have been criticised and attacked upon the ground, among others, that their accounts have not been correctly kept, that their capitalization greatly exceeds their value, and that they have not been efficiently managed.

Criticism and attacks upon all these grounds were made against

them in the recent rate case. Having heard both the attack and the defense, and having weighed all of the evidence presented by both sides, the Interstate Commerce Commission, which cannot be regarded as a body that is unduly partial, at least, to the railways, has held that all the major attacks have been without sufficient justification.

To the credit and vindication of the accounting officers it found that the books and accounts have been correctly kept and show the facts.

In spite of all that has been alleged to the contrary, it has found that the present value of the railways as a whole is approximately nineteen billion seven hundred million dollars. That, of course, is arrived at by adding to the original valuation of 1920 the investments which have since been made. It has expressly held that there is no evidence of general inefficiency of management.

The Commission, by prescribing the way in which the accounts of the railways have been kept for years, by requiring them to make detailed reports regarding all of their operations and transactions, by having its examiners check their accounts and reports to see that they have been correctly made up, and by holding extended hearings in which their managers and officers have been subjected to the severest examination by members of the Commission and by representatives and attorneys of adverse interests, has got for itself and given to the public more complete and reliable information regarding the way the railways have been managed than has ever been obtained and made public by any government body regarding any other class of business concerns.

The findings of the Commission in its opinion, therefore, constitute a remarkable vindication of the management of the railways.

Of course, the Commission does not say, and nobody would say, that the railways have been or are now managed with complete honesty or perfect efficiency. Many offenses have been committed, many mistakes have been made in their management in the past. There are still abuses, undoubtedly, which ought to be abolished. There still remain many ways in which efficiency can and should be increased. But this is true of concerns of every kind.

On the whole, it is very doubtful if any class of business men in America could have had all their work studied and all their transactions scrutinized, as those of the managers of the railways have been, and established a cleaner and more defensible record than the railway managers have. (Applause.)

The findings made by the Commission should be very gratifying to railway officers. They should have a great effect upon public sentiment.

There are, however, some other things in this decision of the Commission which are not only not gratifying, but disquieting.

Undoubtedly, the most unsatisfactory feature of the decision is the ruling that in the future $5\frac{3}{4}$ per cent will be treated as a fair average return upon the valuation as a whole. Of course, such

a return would be a very great improvement over the average of less than 4 per cent which the railways received during the time when under the Commission's ruling in the 1920 rate case they were entitled to 6 per cent. But during this dismal period of struggle in which very few railroads earned 6 per cent and many were trying merely to avert bankruptcy, their officers were at least stimulated by the expectation that if they ever did earn an average of 6 per cent they would be allowed to have it. Now, before they have been able in even a single month to earn that much they find what is held to be a fair return cut down from 6 per cent to $5\frac{3}{4}$ per cent.

The difference may seem small. It means, however, a reduction in the amount the railways may earn for interest, dividends and improvements, of about fifty million dollars a year. It means a reduction in the amount of capital on which they will be able to pay a return at 6 per cent of about eight hundred million dollars.

It means, therefore, that they have been deprived of the ability to raise this much new capital and to provide the public with the additional transportation facilities which the investment of it would have provided.

How much of a saving in rates can it mean to the American public? About forty-five cents per year per person, or less than one cent a week per inhabitant.

Which does the American public need more, this less than one cent a week per capita, or the eight hundred million dollars investment in railway facilities which the Commission's ruling makes impossible?

With the increase in traffic which is now going on, it seems not at all improbable that in a few months the public may be brought to a realization of the fact that a very substantial increase in the facilities of transportation will be more important to it than a relatively small reduction in the net return earned by the railroads. If the railroads during this last five weeks had handled a normal amount of coal traffic, and they handled less than half of the normal coal traffic, the total business handled by them would unquestionably have been larger than the total business ever handled by them in the same part of any other previous year. I greatly fear that the time is not very far distant when the complaints of the shippers because they cannot get a sufficient number of cars in which to ship their freight may be even louder than their complaints recently have been about rates being too high. Their whole theory appears to be that regulation should do everything it can to make it impossible for the railways to provide enough facilities, and then when the facilities which have been provided prove inadequate, the entire responsibility should be laid upon the railway managements. Unfortunately, that does not cause the necessary cars and other facilities to be provided.

It is worth while to speculate upon the reason or reasons which caused the Commission to make this reduction in the "fair return."

Anybody who reads the decision will find it very difficult to determine what was the real reason why the Commission reduced it. The argument of the Commission in its decision would really lead one to the conclusion that the 6 per cent return should have been maintained rather than reduced.

The experience of the last fifteen years does not indicate that after the recapture of one-half of all net return exceeding 6 per cent earned by individual railways the amount of return which would be left out of the $5\frac{3}{4}$ per cent would be sufficient to enable the railways as a whole to raise adequate amounts of new capital. Furthermore, past experience would be rather a dangerous guide to follow under present conditions in the money market of the world. It is true that interest rates are now lower and that in consequence all security prices are higher than some months ago. In spite of this, however, the present market prices of American railway securities do not support the view that an average return of $5\frac{3}{4}$ per cent will be sufficient.

Probably the best test of whether it will be sufficient is afforded by the prices at which the bonds and stocks of the stronger companies are selling. All but their best secured bonds are selling at prices which yield 5 per cent or more, while the best dividend paying stocks are selling at prices which yield 6 per cent or more. Now, new bonds which may be sold will necessarily be less well secured than most of those now outstanding and will have to be sold for relatively lower prices than are commanded by those now outstanding. Furthermore, new issues of stock would have to be sold for less than the market prices now commanded by the present stock of the companies issuing them.

The estimates of the amount of new capital which ought to be invested in railways annually vary widely, but probably the annual investment for some years to come should be at least one billion dollars.

President Storey, of the Santa Fe, in a recent address estimated at one and one-half billion dollars for three years the new investments which ought to be made to bring the railways up to date. His estimate is authoritative because he is a very eminent engineer as well as railway executive.

Can the railways, with the prospect of an average annual return of only $5\frac{3}{4}$ per cent on their valuation, reasonably hope to raise one and one-half billion, or even one billion, dollars of new capital annually?

If there is anything in the past experience of the railways to show that they can, there certainly is not in the past experience of any other industry. The average return earned in the banking business is at least twice that large. The banking business, like the railroad business, is under government supervision, and yet nobody has proposed that it should be restricted to any such average return as the Commission has held will be fair and sufficient for the railways. No other large industry would be satisfied with

5¾ per cent. In fact, the courts in many cases have held that to restrict public service concerns to less than 6 per cent was confiscatory.

It is remarkable that this ruling of the Commission was received with little comment and almost no criticism by the press and general public. They took it as a matter of course that railways should be restricted to a rate of return which would not be considered sufficient in any other business. We should frankly recognize that this is because the Commission's ruling was in accordance with the prevailing public sentiment. The public knows the courts have held that the net returns of railways and public utilities may be reduced and limited to any basis which is not confiscatory. It has been led to believe that because this can be done it is to the public's interest that it shall be done. There are very few who have ever considered the matter enough to have perceived that the least return to which the railways can constitutionally be restricted is not necessarily the return to which, in the public's interest, they ought to be restricted. Perhaps, although it is doubtful, the courts would rule that the Commission could restrict the railways to an average return of 5¾ per cent without violating the constitutional prohibition of confiscation. Suppose, however, that the public welfare demanded a large expansion of railway facilities and that the railways could not, unless they earned an average return of at least, say, 6½ per cent, raise the necessary capital. Clearly then it would be to the public's interest not to restrict the railways to less than 6 per cent, but to let them earn at least 6½ per cent. I wish to be understood as using these figures only for the purposes of illustration.

The fact that the press and public accept with little comment and virtually no criticism the ruling of the Commission that the railways shall be restricted to an average return which is much less than is earned in other lines of business and which closely approaches, or actually crosses, the line of confiscation, strikingly illustrates the fact that the railroad problem never will be solved by the most honest and efficient management, essential as that is to its solution. It is also essential to the solution of the problem that the public shall be given a better understanding of railway matters, and especially that public sentiment more friendly to the railways shall be secured. The public must be made to understand that it is contrary to its own interest to have the railways regulated as they have been in the past, on the principle that their average return should be restricted just as much as it can be without confiscating their property. It must be made to understand that a prosperous railroad industry is just as essential to the welfare of the public as a prosperous agricultural or mining or manufacturing industry. (Prolonged applause.)

I do not think any people ever had a more harmful illusion than that which the American public has that it is to the welfare of the public that agriculture should prosper, that mining should

prosper, that manufacturing should prosper, that everything else should be prosperous, that large profits should be made in all other lines of industry, and at the same time that it is to the public's interest that the railway industry should not prosper in the same measure.

The public, however, will never see and admit it is wrong about this, because it will be unwilling to see and admit it, until the suspicion and hostility which a large part of the people now feel toward the management of the railways have been eliminated. Many of you may doubt if this suspicion and hostility still prevails. Unfortunately, one who reads all kinds of newspapers and magazines, and comes in contact with all classes of people, cannot fail to be convinced that in spite of the proof to the contrary which has been accepted by the Interstate Commerce Commission, there are still many millions of people who do believe that the railways are inefficiently operated, who do believe that they are grossly over-capitalized, who do believe that graft prevails extensively in the relations between their officers and outside concerns, and that excessive amounts of the rates they collect from the public find their way through some channel or other into the pockets of the "malefactors of great wealth" in Wall Street.

I do not know whether you have noticed the result of the vote in the Republican primaries for United States senator in the State of Iowa. If you have not, I fear the effect upon your minds when you do hear about it will not be very encouraging. The Republican party in the State of Iowa has nominated at the primary for United States senator the most radical anti-railroad agitator in the State, a man who has been an avowed advocate of government ownership of railways for years, a man who made the race against Senator Cummins and tried to defeat him upon the railroad issue in the primaries when Senator Cummins was last nominated. It shows a state of mind in the State of Iowa that is not very heartening.

The policies adopted by all of the regulating bodies are strongly influenced by this widely prevalent public sentiment, and the railways will never be able to get the regulation which they ought to have, in justice to the owners of their securities and to enable them properly and adequately to serve the public, until this public sentiment has been changed.

How is this atmosphere of suspicion and hostility to be cleared away? I think the first thing that must be done is to awaken the managers and officers of the railways to a vivid realization of the fact that the future of these properties does not lie in the hands of legislatures, commissions and courts, but in the hands of the public. Almost any railway officer to whom you make that statement will assent to it. It is so obviously true that nobody can dispute it. But while most railway officers accept the theory, it is a remarkable fact how comparatively few of them actually act in accordance with it. A great deal of work has been done to improve public sentiment, but the fact that public sentiment is still

what it is today demonstrates that this work has not been sufficiently effective either because there has not been enough of it or because it has not been well done, or for both reasons. Too many unjust criticisms of the railways, which for years have constantly been made throughout the country, have not been answered promptly, clearly and conclusively enough. In consequence the minds of many people have been filled with misinformation and prejudice. The good things the railroads have done and are doing to develop the country and to increase its prosperity by improving their service, making it more safe and increasing the economy with which it is rendered, have not been told often and well enough.

This good side of the railroad business should be presented to the public through every available channel until the misconceptions and prejudices, which prevail in the minds of so many people, are destroyed.

I believe it is possible for the railways by carrying on extensive and perfectly legitimate public relations work to change the atmosphere of public sentiment in which the railroad business is conducted and in which the railroad problem is discussed. There are many persons in the railroad business who are skeptical about the value of public relations work. They live in terror lest the railways may be criticised for carrying on what has come to be stigmatized by the odious word "propaganda."

Well, gentlemen, it may be that it is impossible to create an intelligent and friendly public sentiment regarding the railways. If that is the case, however, then it follows that private ownership and management in this country is doomed. Nothing could be more certain than that unless a great effort to create a more healthy public sentiment is made, that sentiment will not be created. Since unless such sentiment is created it is a foregone conclusion that private ownership is doomed, there is to my mind no escape from the conclusion that the railway managements should see that more intelligent and comprehensive public relations work is done. It is just as vital to the future of the railways that this be done as that the properties be developed and operated efficiently.

Why is it that after so many years of struggle over government regulation of railways it is still necessary frankly to recognize the fact that public sentiment regarding railway matters is not what it ought to be?

You have all heard the old story of the Arkansas man, the roof of whose house long needed repairing, but who never repaired it. He did not repair it when it was raining because he could not, and he did not repair it when it was not raining because he did not need to.

A very large part of our railway executives have assumed a similar attitude toward public relations work. When earnings have been bad they have considered that they could not afford to do it, and when earnings have been good they have considered it unnecessary.

In view of past experience, if it is true that we have reached or are approaching a pause in the storm, it is probable that we are entering a period of danger to the railways. The only time that most railway managers have recognized the need for extensive and effective public relations work has been in periods of emergency when they have been engaged in great struggles with shippers over rates or with labor over wages, or with unfriendly public men over legislation. It is in these periods, however, that public relations work is likely to be the least effective because in these periods there already prevails a spirit of antagonism on the part of employees, or of shippers, or of public men, which it is extremely difficult to allay. The best time to do effective public relations work is in the periods of calm when no large parts of the public are up in arms against the railways and when people are more disposed to listen to reason.

“In time of peace prepare for war.” The periods when no great contentions or struggles are going on are the best times to present to the public the facts about the great increases in the safety and economy of operation which are being secured, the relative lowness of our railway capitalization and rates, and what the railways need to enable them to provide the public with the service that will be required in future months and years.

You may ask why I am talking thus to a convention of railway accounting officers. I am doing so, first, because you gentlemen are the chief furnishers of the needed ammunition, and, secondly, because railway officers in every department and of every rank should use their influence to secure the adoption of policies by their management which will create a better public sentiment, and all railway officers have their parts which they must do in this work if it is to be done effectively and successfully.

There are many problems of accounting, of engineering, of operation, which must be solved, but the greatest of all the unsolved problems of the railroad business is that of creating an intelligent and healthy public sentiment. Unless that problem is solved, the solution of all the other problems of the railways will be “Love’s labor lost.” I thank you. (Prolonged applause.)

W. E. BAILEY: Mr. Chairman, I feel that we would be very unkind to Mr. Dunn if we did not offer a little more than a clapping of hands. He has come here with an address, and I believe that we can safely say that it is undoubtedly one of the first addresses by one outside of our people in which the language of the accounting department has been used, the language that we all understand, and I feel that everyone here fully appreciates having with us Mr. Dunn. I think we ought to express ourselves even stronger than we have. I offer a vote of thanks.

A. J. COUNTY: Mr. Chairman and ladies and gentlemen, I would like to second the motion of my friend, Mr. Bailey, that a hearty vote of thanks be given to Mr. Dunn, the editor of the *Railway Age*. He is to my knowledge one of the ablest men in the country who,

through his journal, speaks clearly and constructively to railroad officers, not always by word of praise, although he does not stint that, but by word of suggestion, by word of criticism or caution.

Mr. Dunn, we are deeply indebted to you for the broad basis of this address today. We are deeply indebted to you for your continued work to help the whole railroad profession. We are especially indebted to you for your efforts to keep railroad accountants informed on these public questions, and their effect on railroad management and results.

Let me say to you, sir, that your words do not fall on empty ears. There never has been a time when railroad accounting officers were closer to their property, closer to their executive and operating and traffic officers than they are today. We are invited to their conferences. We express our opinions on many matters that do not appear to directly concern us, including those that deal with wages and the relations with our employees to which you have referred.

One of the most difficult, and yet one of the largest, problems that we must solve has to do with these labor relations, because fifty-five cents or more out of every dollar we earn goes to reward labor, including ourselves as laborers in a great public service.

In this convention here today, may I assure you, sir, that if you attend the meetings you will find us alert on railroad questions, and the importance of railroad accounting in assisting to solve them. We compliment you on sending your representatives to our annual conferences, as you always do, which is the way to get information at the source. You will find that this Association has put up, as its flag this year, that we will take in all criticism, good or bad. If it is good, it is going to help us. If it is bad, it cannot hurt us. We have thrown our work open not only to reasoning people, but to anybody, whether crank, "nut" or otherwise, because sometimes out of a crank and a "nut" we get a very usable part of railway mechanism, and we might as well apply them to help the accounting departments.

May I say to you, sir, further, as you probably know already, that no group of men have been more diligent than the Accounting Officers to pointing out to railroad managers, owners, and regulators, in the most friendly and cooperative manner, the way in which this whole railroad industry was tending because of inadequate returns upon the investment. May I say to you that it has been rather disappointing that the truths you have so well pointed out as to the necessity for the railroads earning a good return, are not appreciated by a larger group of the public and by business men and the farmers. We, on the one hand, reason that this country cannot prosper without the railroads, and on the other hand, we must equally reason that they cannot be allowed to be pushed into the ditch without the public paying the full bill for unfair treatment. The country—made up of producers and consumers—cannot get the benefits from the railroads on one side and not put up with the

disadvantages and losses upon the other if the railroad investment is not fairly treated, like the banks and the industries.

Your paper and the people of your profession have done a great deal that is helpful on the constructive side of railroading. It is very helpful to get criticism and suggestions from a friendly and intelligent source. We are keeping on our work here, and when you look at our schedule this year you will see that we have brought the light to bear upon the accounting profession, and said the time has come to stop enlarging and refining railroad accounting, and to see more clearly and concisely what service we have rendered for our dollar of revenue, and what is our profit when it is spent, and to be sure that when a dollar comes into our treasury not one cent of it shall be wasted in unnecessary accounting. We realize our present responsibility not only to the railroad men who are operating the properties, but to the railway owners and the commissions as well, to review the entire accounting situation, and I am happy to say that the Interstate Commerce Commission, as represented by Commissioner Potter, is insisting that we should take that action. We have a solid conviction that if there ever was a time when we had real "public" ownership of railroads, and by that I mean ownership by the individual citizens, by their institutions, by the shippers and passengers along the road, and by the employees, we have it today. We ought to put on our flag everywhere that this is real public ownership, in contradistinction of those terms that mean municipal ownership, state ownership or federal ownership.

With this spirit to the front we are reviewing our accounting classifications, and hope, with the assistance of the Interstate Commerce Commission and the State Commissions—and we have need for all of them—to arrive at an economical and business-like accounting classification which, especially in the disbursement end of it, will show the cost of doing railroad business in labor, materials, fuel and miscellaneous items, so that when we come to rate cases and to demonstrate railroad results, we will have something that corresponds to the actual service rendered the country by the railroads, and its cost, and not merely a collection of figures under accounting headings that now number several hundred.

This is no criticism of present classifications, which are the product of evolution. This is only a recognition that we have been through a serious storm since 1916, and just as industry is revamping its foundations, is inquiring into its management, inquiring into its operation, inquiring into its traffic and accounting to see what is the output and the profit or loss, so we in the railroad profession, especially the accounting part of it, are going, we think, to simplify our accounting classifications in dealing with revenues and expenses and capital outlays, and yet give all essential information.

Further, all departments of the railroads are giving their accounting a freer hand today than we ever had, and we are saying to our officers: "You are spending too many cents out of every dollar you earn for wages or for materials." The operating or the traffic

officer may respond and say, "Well, now, I don't think that is right. What shall we do about it?" We reply, "That is not our end of the business. You either have too many employees or you are not getting enough for the money you spend." We have called attention to the enormous shop and equipment costs beginning with Federal control. We have pointed out to the managers the difference in the types of equipment we are dealing with and the necessity for modernization of plant, and the necessity of not merely maintaining existing plants but of modernizing them so as to keep pace with the country and cheapen transportation costs. Our managers say: "Yes, we appreciate all that, and our plans are ready for the support of the public when you can show us that we can earn a fair return on our capital. Then this plant shall not be found in an obsolete condition, but shall keep pace with the growth of the country and be ready for future improvements." We are not asleep but ready when the public shows that it welcomes railroad initiative and is ready to support it.

Mr. Dunn, Mr. President, ladies and gentlemen, I have spoken longer than I intended, but I have wanted to assure Mr. Dunn that we are quite alive to his views about the necessity for public support based on a proper understanding of the railroad situation. We accounting officers have gone to the limit in pointing out the serious tendency for fifteen years, or more, of the low return upon railroad investments and railroad enterprise. Indeed, personally, I have reached this opinion, and I might as well express it, that if the time comes when the public demands that the Government, having limited railroad returns and management, must assume the responsibility for inadequate railroad facilities because of inadequate railroad returns, then some so-called quick remedy may likewise be suggested which will not cure the situation, like government ownership, not public ownership for that we have now. Then I say that it will not be the shippers, the traveling public, or even railroad employees that are apt to suggest government ownership, but more likely the long-suffering railroad investors themselves. The reason I make that statement is because the railroad managers and owners have done their part, but many of the industries and the farmers and those who are elected to represent the public have not yet listened to us in giving them the true situation that private ownership stands for efficiency, for progress and for the lowest transportation and capital cost. The railroad managers do not stand for continuing the highest operating or capital costs, but the lowest we have ever had; so as to keep American railroads and the American railroad profession where they have always been in my recollection, the first in the world for progress and economy. We need the help of the public and of the journalists to restore those conditions, and help to get full public endorsement for adequate railroad returns and freedom of management. I thank you. (Applause.)